

AR26



SUN OIL  
COMPANY  
LIMITED

**ANNUAL  
REPORT  
1977**

# Sun Oil Company Limited

(Incorporated 1923 under the laws of Canada)

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Brian T. Abbott, *Toronto*  
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*Dean & Professor of Management*  
*Faculty of Management Studies,*  
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Ross A. Hennigar, *Toronto*  
Gordon E. Hillhouse, *Radnor, Pa.*  
*Executive Vice-President,*  
*Sun Company, Inc.*  
Ardagh S. Kingsmill, *Toronto*  
*Partner, Tilley, Carson & Findlay*  
Michael M. Koerner, *Toronto*  
*President, Canada Overseas*  
*Investments Limited*  
William R. Loar, *Calgary*  
Dudley M. McGeer, *Toronto*  
Harry S. Ostrander, *Toronto*  
William S. Woods, Jr., *Radnor, Pa.*  
*Vice-President and Treasurer,*  
*Sun Company, Inc.*

## Principal Officers

Ross A. Hennigar  
*President & Chief Executive Officer*  
Harry S. Ostrander  
*Group Vice-President, Products*  
George H. Brereton  
*Vice-President*  
William R. Loar  
*Group Vice-President,*  
*Exploration and Production*  
F. Hugh Latimer  
*Vice-President, Exploration*  
William N. Turner  
*Vice-President, Production*  
Brian T. Abbott  
*Vice-President, Logistics and*  
*Environmental Conservation*  
Howard B. Maxwell  
*Vice-President, Corporate Affairs*  
Dudley M. McGeer  
*Vice-President, Administration*  
Anthony A.L. Wright  
*Secretary and Treasurer*

## General Counsel

Tilley, Carson & Findlay  
Toronto, Ontario

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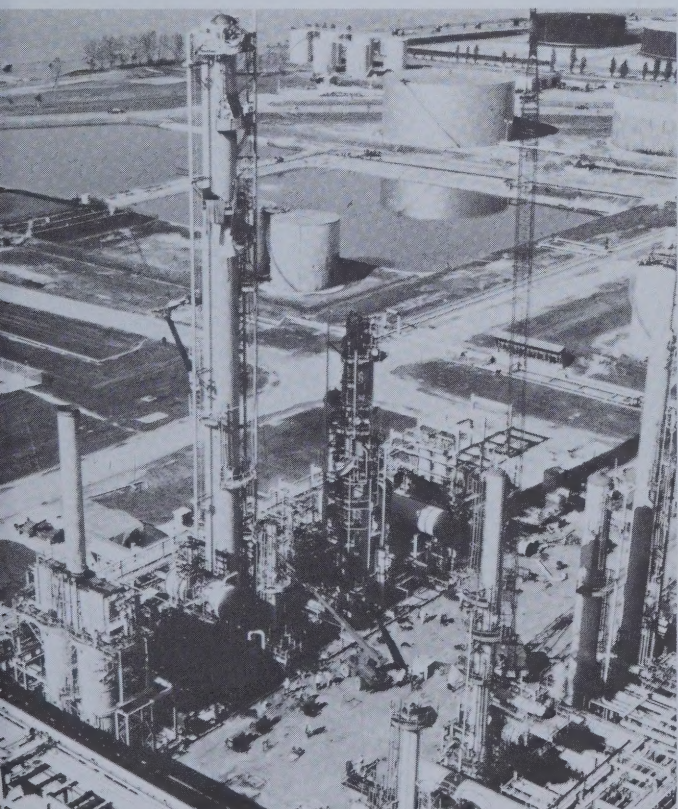
# Highlights of the year

## Financial

	1977	1976	%
	(Dollars in thousands)		Change
Revenues .....	<b>\$468,700</b>	\$401,228	17
Profit before extraordinary gains .....	<b>29,328</b>	13,380	119
Cash flow from operations .....	<b>71,411</b>	44,444	61
Capital expenditures .....	<b>46,310</b>	39,783	16
Total assets .....	<b>584,644</b>	507,456	15
Return on average capital employed .....	<b>7.1%</b>	3.9%	82

## Operating

Refined products sold (thousands of barrels) .....	<b>25,210</b>	24,272	4
Crude oil refined (thousands of barrels) .....	<b>27,933</b>	28,412	(2)
Gross crude oil and condensate produced (thousands of barrels) ...	<b>5,438</b>	5,579	(3)
Gross natural gas produced (millions of cubic feet) .....	<b>23,977</b>	21,310	13



California petrochemical plant completed its first full year of operation in 1977. Products are marketed in Canada, United States and Europe.



Shallow gas well is drilled in Jenner area during the summer of 1977. It was part of Sun's expanded production development program in the western provinces.



# Report to the shareholders

We are pleased to report that all of Sun's operations showed improved profit contributions in 1977, resulting in an encouraging year for the company.

This increased profit reflects the efforts of all Sun employees and their willingness to adapt quickly to changing situations in the company and in the larger external environment. Their

support contributed much to the company's 1977 performance and we are confident that it will continue to do so in the future.

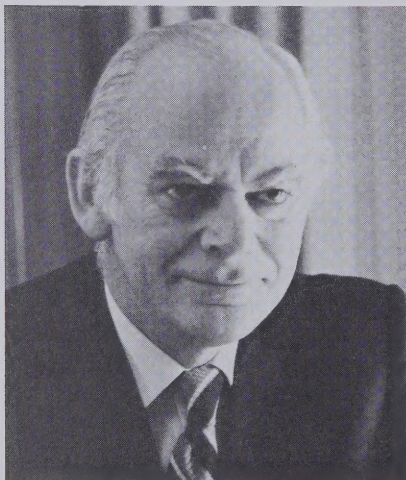
Several programs aimed at improving employee communications got underway during the year. Using independent research consultants, Sun conducted its first company-wide communications study. At year-end

the preliminary report had been received and a program was being developed to report survey findings and resulting action plans to employees. In addition, employee meetings were held during the year to provide a clearer understanding of the challenges Sun is facing and how it plans to meet them.

Again in 1977, a number of company-sponsored training programs were conducted and more are being planned. These will help provide employees with the training necessary to develop meaningful careers within the company.

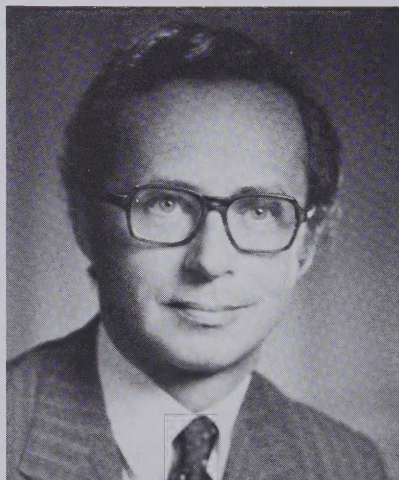
By year-end, many employees had enrolled in our new savings plan which replaced a stock purchase plan operated by Sun's U.S. parent. Launched on Jan. 1, 1978, it offers a high degree of flexibility so that participation can be tailored according to financial needs and abilities. The new plan was designed to assist employees in their long- and short-term financial and retirement planning and has attracted a larger membership than its predecessor, as well as higher rates of contributions from those taking part.

## New directors



**Max B.E. Clarkson**  
*Dean and Professor of Management  
Faculty of Management Studies  
University of Toronto  
Toronto*

The company appointed two outside directors in 1977. These appointments, the first from outside the Sun organization, represent the initial step towards achieving a diverse and balanced board membership with a mix of educational, business and



**Michael M. Koerner**  
*President  
Canada Overseas Investments Limited  
Toronto*

personal backgrounds. The extensive career experience of both members in areas unrelated to the petroleum industry has contributed a broader perspective to board decision-making. They are also directors of various Canadian and foreign corporations.

## Financial Highlights

Sun's performance showed significant improvement in 1977. Profit for the year, excluding extraordinary gains, was \$29.3 million, more than double the \$13.4 million earned in 1976. In addition, the company realized extraordinary gains of \$4.8 million, most of which resulted from the sale of service stations. Excluding extraordinary gains, the return on average capital employed rose to 7.1 per cent, up from the 1976 rate of 3.9 per cent.



The higher 1977 profit resulted from five major factors: increased production of natural gas, higher selling prices for both crude oil and natural gas, the first full-year's operation of the new petrochemical plant, some improvement in refined product profit margins, and improved downstream operating efficiency.

Capital spending in 1977 rose to \$46.3 million, up from \$39.8 million in the previous year. Of this amount, \$34 million was spent on exploration and production, and \$12 million for petrochemical, refined product and pipeline operations.

## Operations

### Exploration and Production

During 1977 the company reduced expenditures for frontier exploration, but increased its investment in exploration and production activities in the western provinces, especially southeastern Alberta. This placed greater emphasis on areas offering less risk and earlier profit generation.

Drilling activity was much higher in 1977. Sun participated in a total of 94 completed exploratory and development wells compared to 37 in the previous year. An additional five wells were in progress at year-end. Gross daily production of natural gas climbed to 66 million cubic feet per day, up from a daily average of 58 million cubic feet in 1976. Gross crude oil production declined slightly to a daily average of 14,900 barrels.

### Exploration

**Western Provinces** — During 1977 the company conducted an expanded exploration program in the western

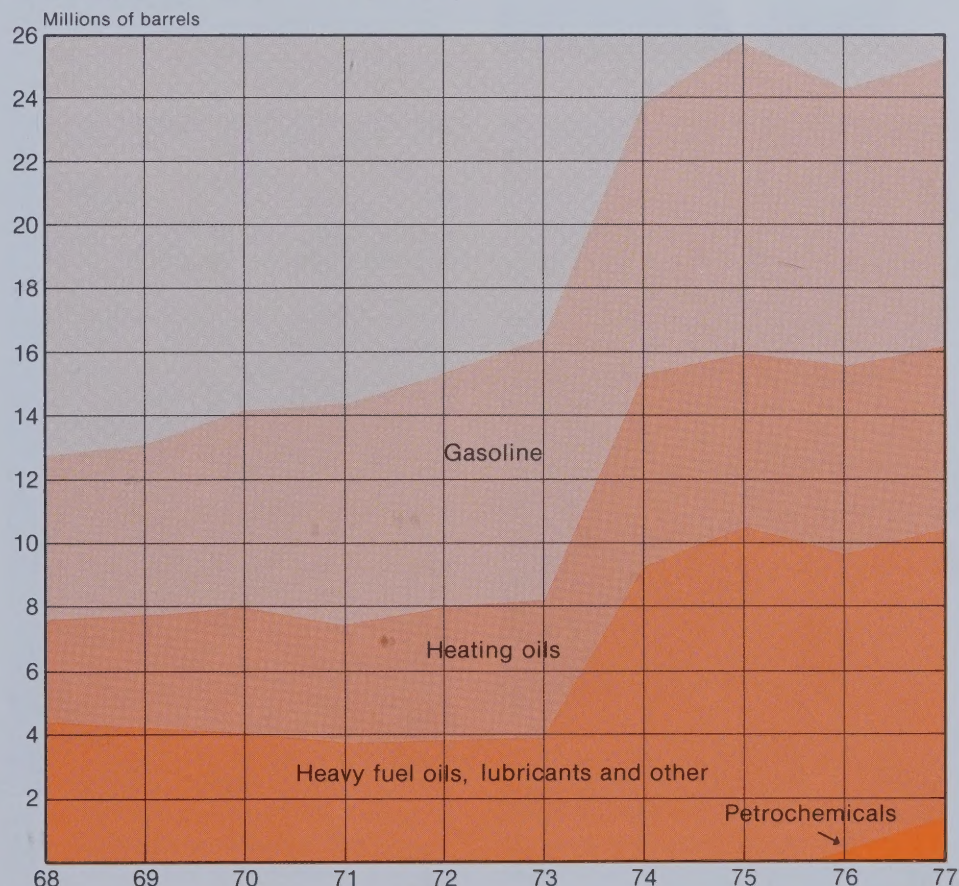
provinces. This increased activity was apparent in all segments of exploration including drilling, land acquisition and surveys to provide geological or geophysical data in several areas of interest.

The drilling program involved participation in 20 exploratory wells in Alberta and one in British Columbia. It resulted in seven gas discoveries, 13 abandonments and one well in progress at year-end.

Continuing its program of acreage acquisition, Sun spent \$3.4 million at land sales during the year to purchase interests in an additional 97,000 gross acres. These acquisitions will provide the base for the company's 1978 drilling program in Alberta and British Columbia.

**Arctic Islands** — To reduce frontier expenditures, Sun farmed out its Arctic Islands holdings in late 1976.

## Product sales volume





# Report to the shareholders continued

## Former chairman retires



Kenneth F. Heddon, a former Sun president and board chairman,

retired from the company in 1977. His retirement marked the end of a distinguished 39-year career during which Mr. Heddon played a key rôle in the company's development.

An honours engineering graduate of the University of Toronto, he joined the Sun organization in 1938 as a sales representative in the industrial products and wholesale department. After holding various management posts in both Canada and United States, he was elected president of Sun Oil Company Limited in 1964 and chairman of its board of directors eight years later.

Mr. Heddon continues as chairman of the board of directors of Great Canadian Oil Sands Limited, a sister company of Sun, and also serves as consultant to both firms. In addition, he is a director of Acres Consulting Services Limited of Toronto, and was recently elected as chairman of the board of Acres Davy Limited, an associated company.

Sun Oil Company Limited, its directors and officers, extend sincere thanks to Ken Heddon for his many years of leadership, his continued interest in the company, and his invaluable contribution to Sun's progress in Canada.

The four-company farmin group, known as the Arctic Islands Exploration Group (AIEG), drilled two wells during 1977 — Depot Island C-44 and N.E. Drake P-40. Both wells were dry and abandoned. However, an extension of the Drake structure is still considered prospective and additional wells may be drilled in this area.

AIEG conducted detailed seismic surveys in several areas during the year, using both on-ice and marine crews, which resulted in 1,339 miles of new data. Additional surveys of 10 promising areas are planned for 1978.

The group's 1978 program also includes the drilling of two wildcat wells from reinforced ice platforms off Melville Island. One of these, Roche Point O-43, was spudded in January, 1978 and is located some four miles

off the west coast of Sabine Peninsula. Drilling of the second well, known as Grassy I-34, got underway in early March. It is situated nine miles north of Sproule Peninsula.

With Sun as operator, an extensive seismic survey of the offshore area of the Arctic Islands was completed during 1977. The three-year project, which cost \$45 million, was conducted by a consortium of 11 companies known as the Arctic Islands Offshore Group. Sun's share of the cost was \$8.5 million.

The program resulted in 10,400 miles of seismic data, of which 1,620 miles were added during 1977. The regional data have assisted in the geological interpretation of the Sverdrup Basin and also identified a number of potential hydrocarbon-bearing structures.

**Offshore Labrador** — Off the coast of Labrador, where Sun has a 10 per cent interest in the Labrador Group acreage operated by Eastcan Exploration Ltd., operations were limited to a 4,660-mile seismic program and various engineering and environmental studies.

Like most operators in this area, the Labrador Group cancelled its 1977 drilling program because of uncertainties which arose from a jurisdictional dispute between the federal government and the government of Newfoundland.

The province issued regulations during the year to govern exploration and production activities in offshore areas. This forced the Labrador Group to contend with two conflicting government jurisdictional claimants. Sun is hopeful that the dispute will be



settled in order not to further inhibit exploratory activities in this area.

**Mackenzie Delta** — Sun's Unark L-24A exploratory well, spudded in late 1976, was abandoned early in 1977 at a depth of some 12,000 feet. While traces of gas were encountered, the well failed to uncover significant hydrocarbons. Drilling costs totalled approximately \$6.3 million.

A location was prepared for another exploratory well some three miles north of Sun's 1976 Garry P-04 oil and gas discovery. Known as Garry G-07, drilling got underway in February, 1978. This is Sun's fifth and final well of a commitment program which began in 1974 and will earn the company an interest in the 270,000 acres covered by the farmout agreement.

## Production

A total of \$15.5 million was spent during 1977 on an active production development program in western Canada. It included a highly successful shallow gas drilling program, new gas production facilities and workovers to both producing and shut-in wells.

Contributing to the year's higher gas volumes were the Rosevear gas plant and the expanded 225-mile Albersun pipeline system, both of which saw their first full year of operation in 1977. Also, new gas wells were tied into the Albersun line and additional compression and gathering lines were installed.

In October, a new gas plant, operated by Sun, went on stream at Killam in east central Alberta. By year-end it was operating at a daily rate of 6.5

million cubic feet, of which Sun's share was approximately two-thirds. The unit was designed to process 20 million cubic feet of gas per day and plans are in progress to connect additional gas to the plant.

In its 1977 drilling program, Sun participated in 77 development wells, of which 59 were in Alberta, 10 in Saskatchewan, six in British Columbia and two in Manitoba. The program resulted in 14 oil wells, 56 gas wells, three abandonments and four wells in progress at year-end.

About one-half of Sun's production expenditures were invested to bring new projects on stream. For example, the connection of shallow wells in the Jenner and Schuler areas of Alberta

increased the company's gross daily production of natural gas by some 1.3 million cubic feet. Work was also underway at year-end to tie in wells in the Countess-Duchess area of the province.

## Refined Products and Petrochemicals

A subsidiary company, operating under the bilingual name of Sunoco Inc., was formed during the year. It encompasses most of the company's marketing, manufacturing, petrochemical and supply and distribution activities which are located in the provinces of Ontario and Quebec.

The year was one of transition as operations were realigned and



*Diane DeBoer co-ordinates new savings plan designed to assist employees with financial and retirement planning.*



*Senior geologist Jack McVee examines rock cuttings from Alberta exploration well.*



# Report to the shareholders continued



*Doug Jones, district manager of provinces exploration, near Sun exploration well at Drumheller.*

streamlined. A profit-centre style of management was introduced into newly-formed business units, thus allowing for better expense control and improved operating efficiency.

Sun's first petrochemical venture, a \$26 million BTX (benzene, toluene, xylene) plant, was completed at Sarnia in mid-1976. During 1977, the plant's first full year of operation, the company expanded its petrochemical sales thrust to include the European market.

## Refined Products

Improved performance in Sun's fuels operation was a major accomplishment in view of the continuing pressure on refined product profit



*New plaza development near Toronto includes this Sunoco station which opened in 1977.*

margins in the company's markets. This pressure resulted from intense competition due to relatively slack economic conditions, surplus refining capacity in eastern Canada and the impact of energy conservation and resulting lower consumer demand. As a result, 1977 product prices were several cents per gallon below the levels considered acceptable by the Anti-Inflation Board.

The total volume of crude processed at Sun's Sarnia refinery in 1977 declined to some 28 million barrels, about two per cent lower than the 1976 figure. This was a daily average of 76,530 barrels, 15 per cent under the refinery's rated capacity.

New tankage and propane, toluene

and xylene loading facilities were installed at Sarnia during the year at a cost of \$1.6 million. The refinery began docking service for a major Canadian company, and Sun-Canadian Pipe Line Company Limited, owned 55 per cent by Sun, began providing pipeline service from Sarnia to Toronto for the same customer.

Implementation of a new marketing strategy began late in 1976 which included the sale of a number of service stations throughout the company's marketing territory in Ontario and Quebec. By the end of 1977, 132 outlets had been sold, most of them to dealers. This divestment program resulted in a capital recovery of \$12 million. During the year \$4 million was spent to upgrade existing facilities and build new service station outlets which offered a greater return on capital.

Preparations got underway in late 1977 to expand the company's lubricants and specialty products operation into the western Canadian market. An earlier agreement with a western blending and packaging company was expanded and an Edmonton office was opened in February, 1978.

Expense reductions contributed to the year's decline in supply and distribution costs. For example, Sun arranged more product exchanges with other refiners, thus reducing overall transportation costs.

## Petrochemicals

The company produced a total of 1.7 million barrels of petrochemicals during 1977. Of that amount, benzene accounted for 14 per cent, toluene for 51 per cent, and xylenes for 35 per cent.



This output represented about 15 per cent of Canada's total BTX production in 1977. However, because the Canadian petrochemical demand is relatively small, Sun began selling xylenes and toluene in the European market. These exports were transacted with both brokers and users.

Operating stability and product quality problems were encountered with the BTX unit during the early part of the year. These were corrected through a normal de-bugging process, modest design modifications and a buildup of operating experience.

Late in 1977, construction began at Sarnia on a 30,000-metric-ton ortho-xylene plant which is scheduled for completion in mid-1978. A contract has been signed with a Canadian customer for the major portion of the annual production. Estimated cost of the project is \$8 million.



Work progresses on gas processing plant at Killam. The Sun-operated unit has a daily capacity of 20 million cubic feet.

## Public Responsibilities

### Energy Conservation

New steps to conserve energy in the company's various operations were undertaken in 1977, adding to those instituted in previous years. Measures implemented to improve the refinery's energy efficiency level were very successful, and various employee programs emphasized the need to reduce energy consumption both at home and on the job.

During the year, Sunoco fuel oil distributors and subsidiaries began supplementing fuel oil services with the sale and installation of home insulation through outside contractors. A program offering an incentive to employees who insulate their homes through Sun companies is planned for 1978.

Several 1977 studies at Sarnia re-

finery, which related to the use of energy and energy efficiency, identified a number of areas where savings could be realized. The studies sparked several programs which could result in annual savings of up to \$1 million.

The company also encouraged conservation among its customers and the general public. For example, a series of corporate advertisements, aimed at university students across Canada, discussed the energy situation and outlined various ways to conserve non-renewable energy sources.

### Francization

During the year Sun continued its program to comply with the requirements of the Quebec Charter of the French language. Two francization



Pamela Marchant is industrial products representative in lubricants and specialty products, Ontario region.



# Report to the shareholders continued



Above outlet is one of several in the province of Quebec which features a new marketing venture for Sun. The Provi-Soir convenience store offers 2,500 stock items; Sunoco pumps are self-serve.

committees, one-third of each elected by employees below supervisory levels, were in place by the end of November.

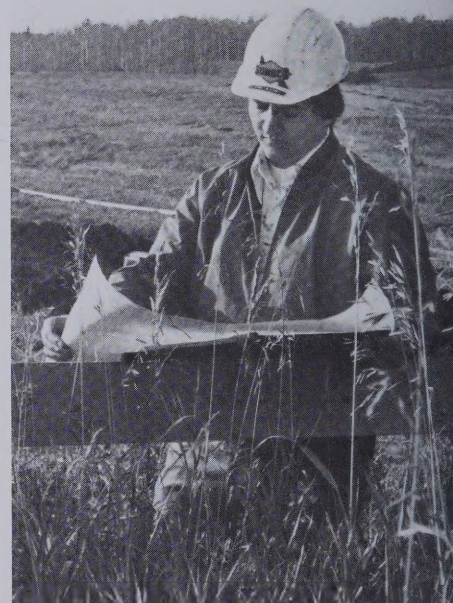
In 1977, the company enlarged its corporate translation staff which is located in the Montreal office, thus improving French-language services for employees and customers. At year-end, plans were in progress for additional French-language training programs which will be available to selected groups of employees in 1978.

## Environmental Protection

Sun is highly aware of its environmental responsibilities and, again in 1977, worked closely with various organizations to develop more effective methods of protecting the environment.

During the year, the company continued its program to replace each top-loading facility at the main refined product distribution terminals with a more efficient bottom-loading system. The new installation offers environmental advantages because very few gaseous fumes escape in a bottom-loading operation. It also features faster and multi-product loading and a greater measure of safety. All seven terminals will be equipped with the new facilities by the end of 1978.

Other expenditures included refinery effluent treatment facilities and the installation of floating roofs on product storage tanks. In addition, the major oil spill contingency plan was improved and revised to reflect recent developments, and further employee training programs are planned.



Tony Malach, senior engineering technician, supervises laying of pipe from new Sun compressor station.

## Metrication

The company's metric conversion program proceeded on schedule during the year and is expected to cost some \$1.4 million by the end of 1980.

Geophysical field activity was converted late in 1977, drilling operations are scheduled for July, 1978, and full conversion of exploration and production activities will be completed by January, 1979. A 20-week training program began in the fall of 1977 to prepare Sun's exploration and production employees for the changes the new system will bring to their jobs.

As the bulk of the conversion in the company's downstream operations is scheduled for 1979 and 1980, the emphasis during 1977 was on



developing the plans for that conversion and the training which must accompany it.

## The Future

Sun has allocated some \$64 million for capital spending in 1978. Of this amount, \$42 million has been earmarked for exploration and production, and \$22 million for marketing, manufacturing, pipeline and new petrochemical facilities. In addition, the company's strategy is to pursue more vigorously acquisitions in both the exploration and production areas, and in petrochemicals.

Plans call for continued investment in the search for and development of additional hydrocarbon reserves with greater emphasis being placed in areas offering more rapid revenue generation.

Exploration in the western provinces is budgeted for over \$7 million in 1978. The company anticipates a varied drilling program in the provinces, comprised of both shallow and deep wells. This program will take advantage of drilling and exploration incentive credits offered by the provincial governments. In addition, 1978 will see completion of the second Garry well in the Mackenzie Delta; a two-to-three-well program on Sun lands in the Sverdrup Basin by AIEG, the four-company farmin group; and, hopefully, a resumption of exploration activity off the Labrador coast.

The company plans to continue streamlining its marketing operation in 1978 and to spend a further \$5 million to upgrade existing facilities and build new service station outlets.

The surplus refining capacity condition in eastern Canada will be aggravated during 1978 as additional

industry refining capacity comes on stream. Also, the current weak world-wide economy could have an adverse impact on Sun's petrochemical operation as it continues to sell products in the European market.

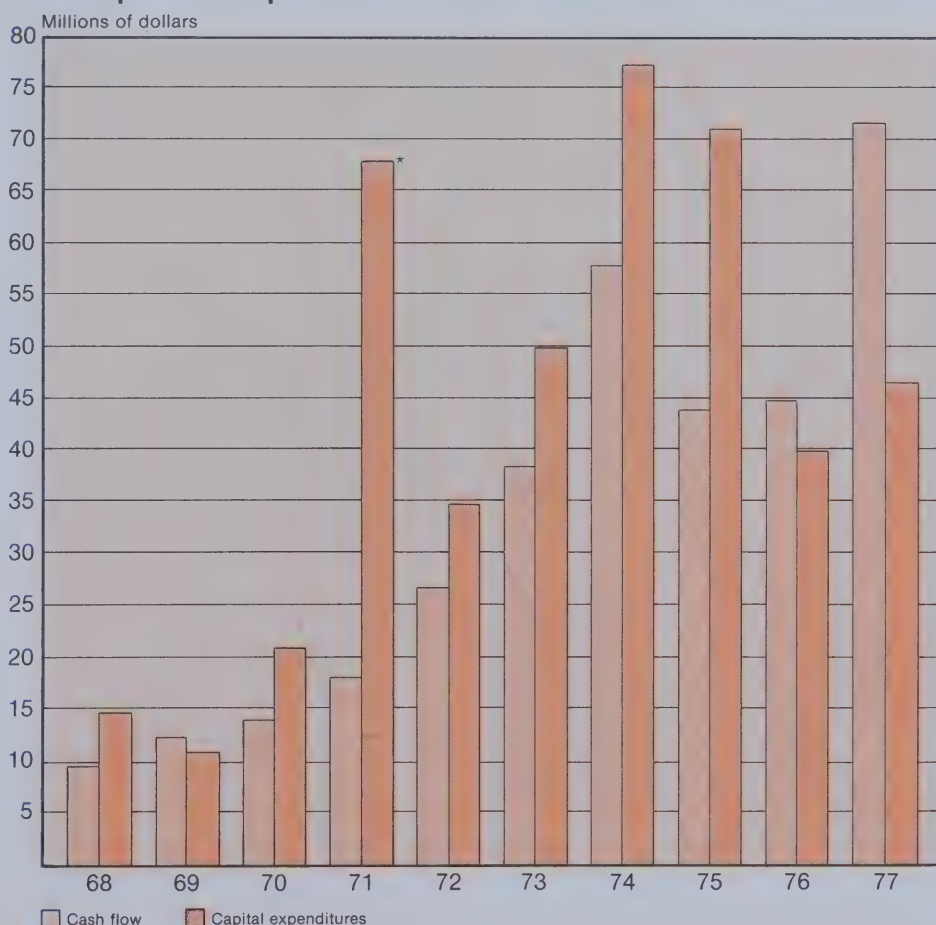
In spite of these conditions, however, the company anticipates significant progress in 1978. We are optimistic

that the directional changes made in 1977 have enabled the company to achieve a better balance in the use of its assets and to take fuller advantage of future investment opportunities.

*Ross A. Hennigar*

March 6, 1978  
Ross A. Hennigar

## Cash flow from operations vs. capital expenditures



\*Note: 1971 purchases include \$35,900,000 exploration and production properties, plant and equipment purchased from the parent company in consideration for shares of Sun Oil Company Limited.





Children's television special is filmed by the CBC at a Sunoco station in Toronto.



This 12,500-gallon semi-trailer is new king of Sunoco's truck fleet. It operates out of Toronto terminal.



New fire protection system at Montreal terminal includes 11 fire hydrants with monitor spray nozzles. System uses both water and fire-fighting foam.

### Sun's manufacturing record

(Barrels in thousands)

	1977	1976
Crude refined at Sun refinery	27,933	28,412
Deduct: crude refined for others	(7,955)	(12,317)
Crude refined by others in Canada for Sun	7,417	7,589
Crude refined — Sun account	27,395	23,684
Crude refined at Sun refinery as % of year-end rated capacity	85	91



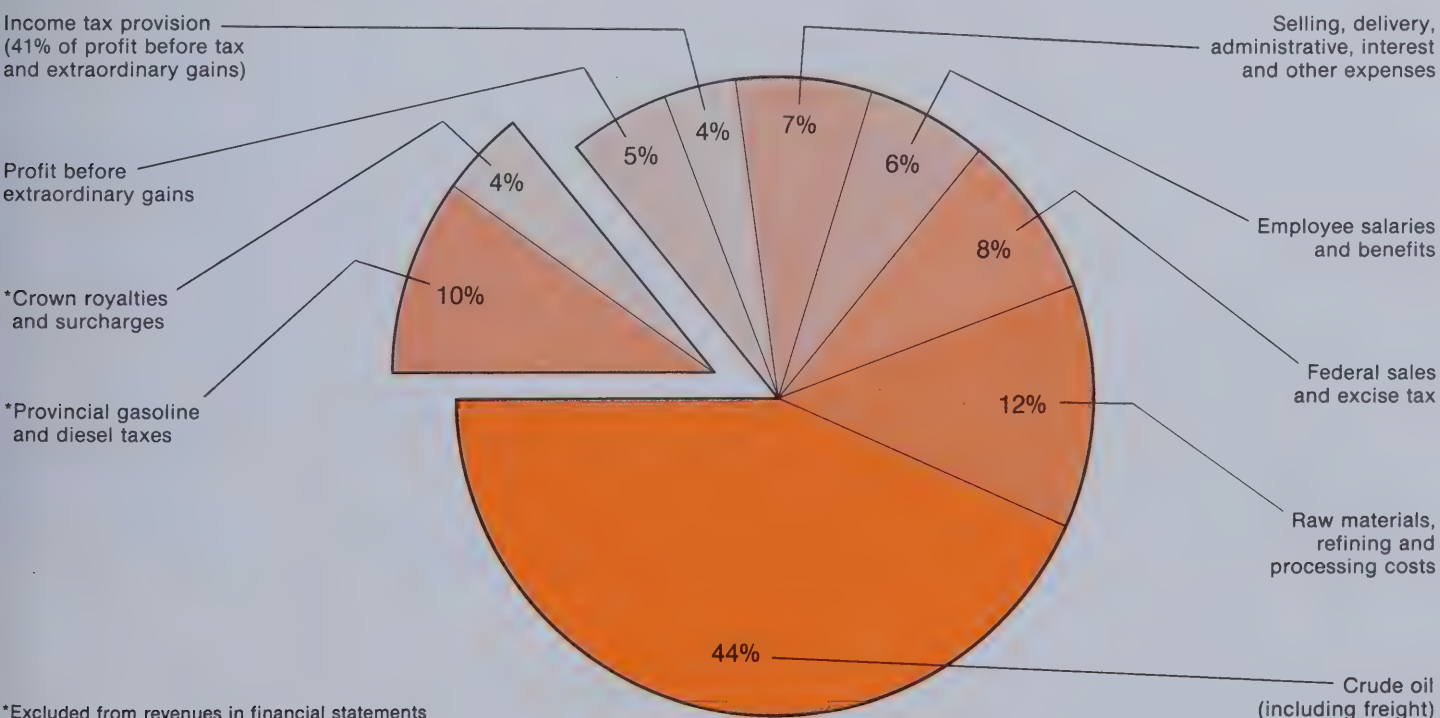
## Payments to government other than income taxes

(Thousands of dollars)

						1977	1976
	Crown royalties and surcharges	Mineral lease acquisitions and rentals	Production and related taxes	Federal sales and excise taxes	Real estate and other taxes	Total	Total
British Columbia	\$ 1,659	501	9		45	\$ 2,214	\$ 2,187
Alberta	15,992	2,847	838		402	20,079	13,375
Saskatchewan	6,460	22	310		124	6,916	5,514
Manitoba	309		14		21	344	302
Ontario					2,610	2,610	2,742
Quebec					756	756	832
Federal				44,919		44,919	44,089
	\$24,420	3,370	1,171	44,919	3,958	\$77,838	\$69,041

The above table does not include amounts collected by Sun for government. For example, in 1977 Sun collected and remitted \$53 million in Ontario and Quebec gasoline and diesel fuel taxes.

## Where our revenues go





## Undeveloped acreage

	1977		1976	
	Gross*	Net**	Gross*	Net**
British Columbia	228,493	107,694	181,817	112,644
Alberta	868,675	448,777	838,343	424,876
Saskatchewan	13,552	7,361	14,672	8,161
Yukon Territory	47,425	35,569	47,425	35,569
Mackenzie Delta/Beaufort Sea	1,780,808	599,252	1,780,808	599,252
Arctic Islands	31,831,829	11,763,937***	31,944,965	12,543,225
Other Northwest Territories	73,094	10,835	167,751	25,980
Atlantic Offshore	29,835,576	3,047,262	30,258,610	3,068,414
	<b>64,679,452</b>	<b>16,020,687</b>	<b>65,234,391</b>	<b>16,818,121</b>

\*Gross means the total acreage in which Sun has an interest.

\*\*Net means acreage equivalent to Sun's interest after elimination of outside interests.

\*\*\*Subject to substantial reduction under a farmout agreement.

## Daily production by province

	Crude oil and condensate (barrels)				Natural gas (thousands of cubic feet)			
	Gross*		Net**		Gross*		Net**	
	1977	1976	1977	1976	1977	1976	1977	1976
British Columbia	1,128	1,134	675	619	7,873	8,606	7,873	8,606
Alberta	8,623	8,782	5,195	5,104	56,778	48,455	34,082	29,847
Saskatchewan	4,688	4,852	2,495	3,738	1,039	1,163	893	1,041
Manitoba	460	475	321	416	—	—	—	—
	<b>14,899</b>	<b>15,243</b>	<b>8,686</b>	<b>9,877</b>	<b>65,690</b>	<b>58,224</b>	<b>42,848</b>	<b>39,494</b>

\*Gross production means total production equivalent to Sun's interest prior to deduction of Crown royalties and freehold and overriding royalty interests.

\*\*Net production means total production equivalent to Sun's interest after deduction of Crown royalties and freehold and overriding royalty interests.

## Proven reserves

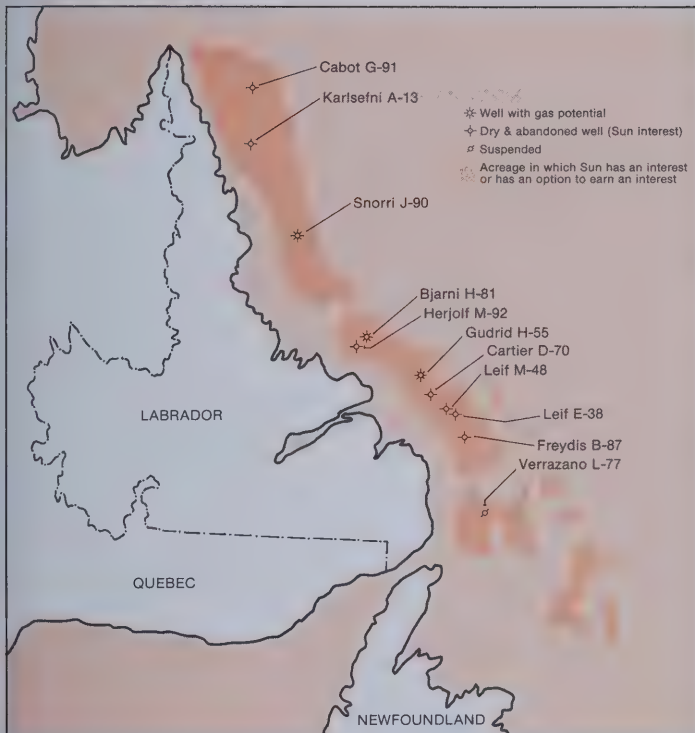
	Gross*		Net**	
	1977	1976	1977	1976
Crude oil (millions of barrels)	91	100	58	66
Natural gas (billions of cubic feet)	557	537	395	385

\*Gross means reserves equivalent to Sun's interest prior to deduction of Crown royalties and freehold and overriding royalty interests.

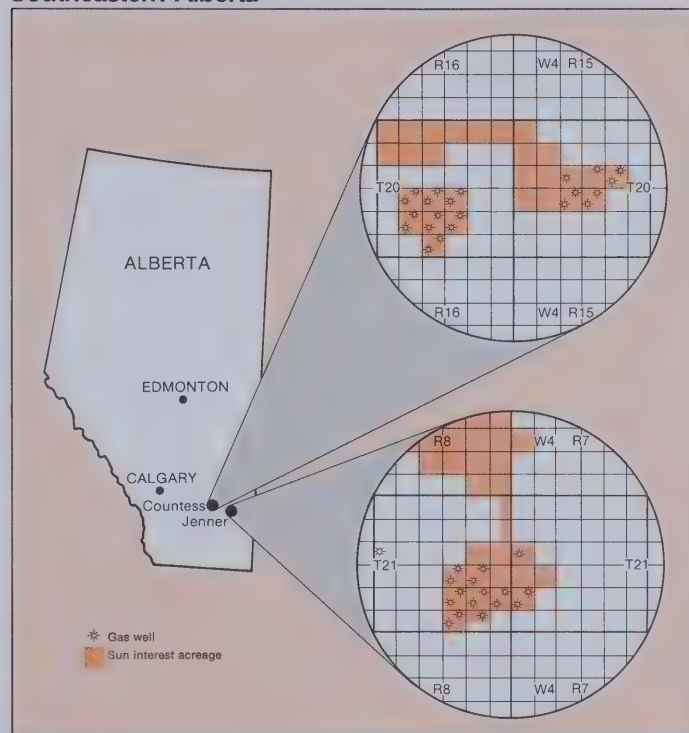
\*\*Net means reserves equivalent to Sun's interest after deduction of Crown royalties and freehold and overriding royalty interests.



## Offshore Labrador



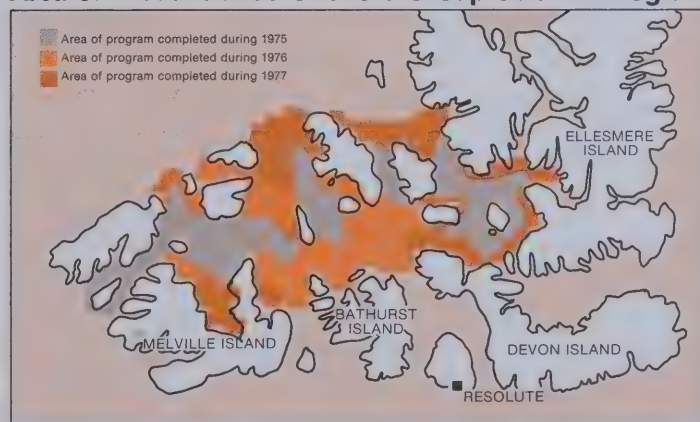
## Southeastern Alberta



## Arctic Islands

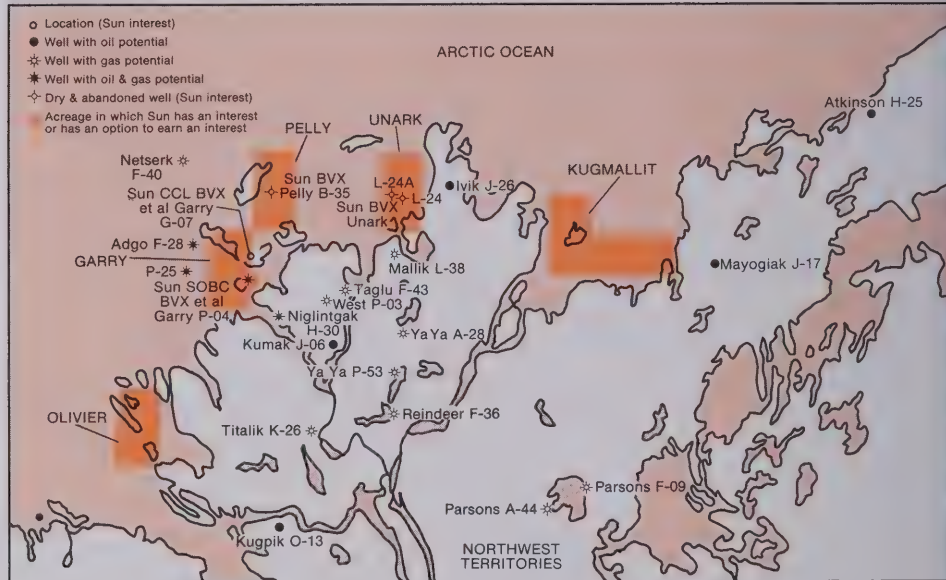


## Area of Arctic Islands Offshore Group Seismic Program





## Mackenzie Delta



## Western Provinces





# Statement of Performance for the year ended December 31

Sun Oil Company Limited and Subsidiaries

	1977	1976
(Thousands of dollars)		
<b>Revenues</b>		
Sales and other operating .....	\$467,498	\$400,821
Investment .....	1,202	407
	<b>468,700</b>	401,228
<b>Expenses</b>		
Cost of products .....	353,558	314,787
Depletion of oil and gas properties .....	10,151	8,707
Selling, general and administrative .....	51,419	50,330
Gain on disposals of properties, plant and equipment .....	(153)	(2,421)
Interest (note 4) .....	3,897	4,908
Income tax provision .....	20,500	11,537
	<b>439,372</b>	387,848
<b>Profit before extraordinary gains</b> .....	<b>29,328</b>	13,380
<b>Extraordinary gains</b> (note 3) .....	<b>4,796</b>	—
<b>Net profit</b> .....	<b>\$ 34,124</b>	\$ 13,380

See accompanying notes

## Auditors' Report

### To the shareholders of Sun Oil Company Limited

We have examined the consolidated statement of financial position of Sun Oil Company Limited as at December 31, 1977 and the consolidated statements of performance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted

auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then

ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Coopers & Lybrand*

COOPERS & LYBRAND  
Chartered Accountants  
Toronto, Ontario  
January 20, 1978



# Statement of Financial Position

as at December 31

Sun Oil Company Limited and Subsidiaries

	1977	1976
(Thousands of dollars)		
<b>Cash and items convertible to cash within one year</b>		
Cash .....	\$ 5,815	\$ 3,495
Short-term Investments .....	21,100	—
Amounts due from: customers .....	58,792	45,626
affiliated companies .....	1,010	526
others .....	17,551	9,898
Inventories (note 5) .....	112,815	96,071
	<b>217,083</b>	<b>155,616</b>
<b>Deduct: Liabilities payable within one year</b>		
Short-term borrowings .....	8,614	24,277
Amounts due to: suppliers .....	49,852	42,430
affiliated companies .....	38,727	8,815
Export, sales and other taxes .....	14,605	10,660
Current portion of long-term borrowings .....	22	40
	<b>111,820</b>	<b>86,222</b>
<b>Working capital</b> .....	<b>105,263</b>	<b>69,394</b>
<b>Add: Other assets</b>		
Properties, plant and equipment (note 6)		
Exploration and production .....	201,926	181,757
Refining and petrochemicals .....	77,110	75,370
Transportation and distribution .....	38,545	38,800
Marketing .....	41,563	48,694
	<b>359,144</b>	<b>344,621</b>
Long-term receivables .....	3,108	1,816
Expenditures for the benefit of future years .....	5,309	5,403
	<b>367,561</b>	<b>351,840</b>
<b>Working capital plus other assets</b> .....	<b>472,824</b>	<b>421,234</b>
<b>Deduct:</b>		
Long-term borrowings (note 7) .....	30,071	30,122
Deferred and other credits		
Deferred revenues .....	1,147	1,760
Deferred income taxes .....	90,316	71,808
Portion of subsidiary's equity not owned by Sun .....	8,082	8,460
	<b>129,616</b>	<b>112,150</b>
<b>Shareholders' equity</b> .....	<b>\$343,208</b>	<b>\$309,084</b>
Shareholders' equity consists of:		
Common shares (note 8) .....	<b>\$188,605</b>	<b>\$188,605</b>
Profits retained in the business:		
Beginning of year .....	120,479	107,099
Net profit for the year .....	34,124	13,380
End of year .....	<b>154,603</b>	<b>120,479</b>
	<b>\$343,208</b>	<b>\$309,084</b>

On behalf of the Board  
R.A. Hennigar, Director  
D.M. McGeer, Director

See accompanying notes



# Statement of Changes in Financial Position *for the year ended December 31*

Sun Oil Company Limited and Subsidiaries

	1977	1976
(Thousands of dollars)		
<b>Source of working capital</b>		
Profit before extraordinary gains .....	\$ 29,328	\$ 13,380
Add back (deduct) items not affecting working capital:		
Depreciation .....	11,952	10,490
Depletion .....	10,151	8,707
Amortization of expenditures for the benefit of future years .....	1,577	1,590
Deferred income taxes .....	18,556	12,698
Gain on disposals of properties, plant and equipment .....	(153)	(2,421)
	71,411	44,444
Disposals of properties, plant and equipment .....	15,200	8,163
Net decrease in long-term receivables .....	—	590
Increase (decrease) in deferred revenues .....	(1,228)	513
<b>Additions to working capital</b> .....	<b>85,383</b>	<b>53,710</b>
<b>Use of working capital</b>		
Purchases of properties, plant and equipment:		
Exploration and production .....	34,319	18,763
Refining and petrochemicals .....	5,821	16,349
Transportation and distribution .....	2,564	1,716
Marketing .....	3,606	2,955
Net increase in long-term receivables .....	1,292	—
Expenditures for the benefit of future years .....	1,483	1,527
Borrowings maturing within one year .....	51	35
Decrease in portion of subsidiary's equity not owned by Sun .....	378	336
<b>Reductions in working capital</b> .....	<b>49,514</b>	<b>41,681</b>
<b>Net increase in working capital</b> .....	<b>35,869</b>	<b>12,029</b>
<b>Working capital — beginning of year</b> .....	<b>69,394</b>	<b>57,365</b>
<b>Working capital — end of year</b> .....	<b>\$105,263</b>	<b>\$69,394</b>
<b>Analysis of the change in working capital</b>		
Cash .....	\$ 2,320	\$ (2,301)
Short-term investments .....	21,100	—
Amounts due from customers, affiliated companies and others .....	21,303	(134)
Inventories .....	16,744	4,534
Short-term borrowings .....	15,663	(3,810)
Amounts due to suppliers and affiliated companies .....	(37,334)	13,585
Export, sales and other taxes .....	(3,945)	96
Current portion of long-term borrowings .....	18	59
<b>Net increase in working capital</b> .....	<b>\$ 35,869</b>	<b>\$12,029</b>

See accompanying notes



# Notes to Consolidated Financial Statements

December 31, 1977

Sun Oil Company Limited and Subsidiaries

## 1. Summary of significant accounting policies

### a) Consolidation —

The accompanying financial statements are prepared on a consolidated basis to include the accounts of all subsidiaries.

### b) Inventories —

Imported crude oil and refined products are valued at cost, using the first in first out pricing method, which does not exceed net realizable value. Canadian crude oil is valued, using the first in first out pricing method, at posted prices prevailing at time of production. Refined products derived from Canadian crude oil are based on these values.

Materials and supplies are valued at cost, which does not exceed net realizable value.

### c) Exploration and production expense, full cost method —

All costs incurred in searching for oil and gas reserves, including leasehold acquisition and retention costs, are capitalized. Such costs are charged against operations by a provision for depletion, calculated on a unit-of-production basis. Tangible equipment is capitalized and depreciated.

Operating costs of current production are charged directly to expense as incurred, as are overhead, general and administrative costs.

### d) Depreciation and depletion —

Plant and equipment: depreciation is

based on the average estimated useful lives of the major asset categories, and charged against revenues on a straight line basis.

Oil and gas properties: depletion is charged against revenues in the ratio of units produced to estimated reserves.

### e) Income tax provision —

Some costs and revenues may by law be deducted or added in calculating taxable income in years later or earlier than actually recorded in the financial statements. The "income tax provision" is based upon the revenues and expenses actually recorded, but differs from taxes actually paid or payable. In the long run these differences between taxes actually payable and amounts expensed in respect of taxes would tend to disappear, but year by year there are

imbalances, shown in the statement of financial position as "deferred income taxes".

## 2. Change in statement presentation

1976 figures are reclassified on a basis consistent with 1977 presentation.

## 3. Extraordinary gains

The extraordinary gains are:

a) \$4,316,000 gains on disposals of 124 service stations, net of income taxes of \$432,000.

b) \$480,000 reduction of income tax provision, arising from prior years' losses of a subsidiary company. Losses of \$2,600,000 remain available for potential future deduction from taxable income.

4. Interest expense	1977	1976
Short-term .....	\$1,037,000	\$1,639,000
Long-term .....	2,860,000	3,269,000
	<b>\$3,897,000</b>	<b>\$4,908,000</b>

5. Inventories	1977	1976
Crude oil .....	\$ 46,466,000	\$ 51,293,000
Refined products .....	57,671,000	34,564,000
Materials and supplies .....	8,678,000	10,214,000
	<b>\$112,815,000</b>	<b>\$96,071,000</b>



## 6. Properties, plant and equipment

1977 1976

	Properties, plant and equipment at cost	Accumulated depreciation and depletion	Net Values	Net values
Exploration and production:				
Plant and equipment .....	\$ 36,594,000	\$ 9,066,000	<b>\$ 27,528,000</b>	\$ 22,225,000
Oil and gas properties .....	222,572,000	48,174,000	<b>174,398,000</b>	159,532,000
Refining and petrochemicals .....	113,834,000	36,724,000	<b>77,110,000</b>	75,370,000
Transportation and distribution .....	59,992,000	21,447,000	<b>38,545,000</b>	38,800,000
Marketing .....	65,118,000	23,555,000	<b>41,563,000</b>	48,694,000
	<b>\$498,110,000</b>	<b>\$138,966,000</b>	<b>\$359,144,000</b>	<b>\$344,621,000</b>

## 7. Long-term borrowings

1977 1976

Bank loan due January 30, 1981 bearing interest at 1% over the bank's prime rate ....	<b>30,000,000</b>	\$30,000,000
Mortgages .....	<b>71,000</b>	122,000
	<b>\$30,071,000</b>	<b>\$30,122,000</b>

## 8. Common shares

Authorized — 20,000 shares of no par value.

Issued and fully paid — 15,997 shares, all of which are owned by Sun Company, Inc.

## 9. Commitments and contingencies

a) The unfunded liability for prior service costs in connection with the employees' pension plan at December 31, 1977 is estimated to be \$8,400,000 (based on an independent actuarial valuation as of January 1,

1977 and reflecting increases in retirement benefits provided by the 1977 amendment to the plan). This amount, with interest at 5%, will be expensed and paid generally over the next twelve years. \$2,200,000 of past payments which are included in expenditures for the benefit of future years will be charged to expense in the same period.

b) Minimum annual rental charges under leases and commitments expiring more than three years after the year-end approximate \$2,000,000.

## 10. Directors and officers

Thirteen persons were directors of the Company during all or part of 1977; their remuneration as directors aggregated \$5,700. The fifteen officers of the Company during 1977 included six who were also directors; their remuneration as officers aggregated \$732,700.

## 11. Anti-Inflation Act

The Company is subject to and has complied with controls on profit margins, compensation and dividends, under the federal government's Anti-Inflation Program.



# Financial and Operating Summary

	1977	1976	1975	1974	1973
<b>Financial</b>	(Dollars in thousands)				
Revenues .....	<b>468,700</b>	401,228	346,720	280,561	150,015
Expenses .....	<b>439,372</b>	387,848	333,082	258,126	134,089
Profit before extraordinary gains .....	<b>29,328</b>	13,380	13,638	22,435	15,926
Extraordinary gains .....	<b>4,796</b>	—	—	2,205	5,562
Net profit for the year .....	<b>34,124</b>	13,380	13,638	24,640	21,488
Items not affecting working capital .....	<b>37,287</b>	31,064	30,001	32,504	16,763
Cash flow from operations .....	<b>71,411</b>	44,444	43,639	57,144	38,251
Return on average capital employed* .....	<b>7.1%</b>	3.9%	4.0%	7.6%	6.7%
Shareholders' equity:					
Paid-in capital .....	<b>188,605</b>	188,605	188,605	188,605	155,940
Profits retained in the business .....	<b>154,603</b>	120,479	107,099	93,461	68,821
Capital expenditures:					
Exploration and production .....	<b>34,319</b>	18,763	44,599	36,415	15,519
Marketing, refining and other .....	<b>11,991</b>	21,020	26,079	40,933	34,424
	<b>46,310</b>	39,783	70,678	77,348	49,943
Salaries, wages and benefits .....	<b>35,473</b>	33,859	30,181	19,723	15,351
Capital employed per employee .....	<b>192</b>	175	149	137	140
*Profit before extraordinary gains, plus interest expense net of income tax, expressed as a percentage of average capital employed. Capital employed is working capital plus other assets.					
<b>Operating</b>					
Gross crude oil and condensate produced (barrels per day)** .....	<b>14,899</b>	15,243	15,331	12,333	14,250
Gross natural gas produced (millions of cubic feet per day)** .....	<b>65.7</b>	58.2	48.7	40.0	42.7
Net undeveloped oil and gas acreage (millions of acres) .....	<b>16.0</b>	16.8	16.4	17.1	14.5
Gross proven reserves:					
Crude oil (millions of barrels) .....	<b>91</b>	100	102		
Natural gas (billions of cubic feet) .....	<b>557</b>	537	563		
Crude refined at Sun refinery (barrels per day) .....	<b>76,530</b>	77,630	83,280	69,410	38,860
Sales of refined products (barrels per day) .....	<b>69,070</b>	66,320	70,300	65,150	44,850
Service stations (year-end) .....	<b>960</b>	1,140	1,170	1,150	1,160
Number of employees (year-end) .....	<b>2,468</b>	2,411	2,650	2,464	1,866

\*\*Prior to 1975 net figures are shown



### Subsidiary Companies

Albersun Pipeline Ltd.

Calgary, Alberta

*Natural gas pipeline operator in Alberta*

Baron Petroleums Inc.

Toronto, Ontario

*Retail gasoline distributor*

Gow Fuels Inc.

Hull, Quebec

*Heating oil and gasoline distributor*

Maywelle Properties Ltd.

Toronto, Ontario

*Real estate developer*

Quimet-Gobeille Inc.

Montreal, Quebec

*Heating oil and gasoline distributor*

SMS Petroleums Ltd.

Toronto, Ontario

*Retail gasoline distributor*

Sun-Canadian Pipe Line

Company Limited

Waterdown, Ontario

*Petroleum products pipeline operator in southern Ontario (55% owned)*

Sun Explorations of Quebec Ltd.

Calgary, Alberta

*Exploration in the Province of Quebec*

Sunoco Home Comfort, Inc.

Toronto, Ontario

*Heating oil and gasoline distributor with various divisions in Ontario*

Sunoco Inc.

(including Sunchem division)

Toronto, Ontario

*Manufacturer and marketer of petroleum and petrochemical products.*

### Associated Companies

Great Canadian Oil Sands Limited  
and its subsidiaries

Fort McMurray and Edmonton, Alberta  
Toronto, Ontario

*Production of synthetic crude oil from the Athabasca oil sands*

Sperry-Sun of Canada Ltd.

Edmonton, Alberta

*Well surveying and engineering services*

Sunray DX Canada Oil Company

Calgary, Alberta

*Exploration and production in western Canada*

### Parent Company

Sun Company, Inc.

Radnor, Pennsylvania



Sun Oil Company Limited